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061318Z Mar 01

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	FRB-00	H-01	TEDE-00	INR-00	ITC-01	L-00	VCE-00
	AC-01	NSAE-00	OES-01	OMB-01	OPIC-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	USIE-00	FMP-00	DRL-02	G-00
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FM AMEMBASSY HARARE
TO SECSTATE WASHDC 8361
INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
USDOC WASHDC
NSC WASHDC
DEPTTREAS WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 HARARE 000926

SIPDIS

STATE FOR AF, AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC
TREASURY FOR ED BARBER AND BARAK HOFFMAN
USDOC FOR 2037/ERIC HENDERSON
STATE PASS USTR/RWHITTAKER
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
PARIS FOR BISA WILLIAMS
LONDON FOR CGURNEY

E.O. 12958: DECL: 03/06/06

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [ZI](#)

SUBJECT: ZIMBABWE'S RECENT ECONOMIC RESULTS AND OUTLOOK

CLASSIFIED BY ECON/COMM OFFICER MARK PROKOP, REASONS
1.5 (B), (D).

1. (C) SUMMARY: THIS REPORT PROVIDES KEY ECONOMIC DATA
ENABLING READERSHIP TO STAY ABREAST OF ZIMBABWE'S FALLING
ECONOMIC PERFORMANCE. TWO MONTHS INTO THE NEW YEAR A
BETTER PICTURE OF LAST YEAR'S POOR PERFORMANCE IS
EMERGING, AS WELL AS TRENDS THAT DO NOT BODE WELL FOR
2001. IN BRIEF THE RESULTS ARE:

= REAL GDP DECLINED IN 2000, ABOUT 5 PERCENT BY GOZ
ESTIMATES, AND AT LEAST 7-8 PERCENT ACCORDING TO US AND
LOCAL ECONOMISTS;
= INFLATION, AT 56 PERCENT IN 2000, IS EXPECTED TO STAY
STRONG, AND COULD VERY WELL INCREASE IF A TURNAROUND IS
NOT SOON ENGINEERED;
= TRADE FLOWS WILL CONTINUE TO BE NEGATIVE AND THE
BALANCE-OF-PAYMENTS SITUATION WILL WORSEN, AS ARREARS
MOUNT AND DEVELOPMENT AID AND MULTILATERAL LENDING REMAIN
SHUTOFF;
= ARREARS (COMBINED PUBLIC AND PRIVATE SECTORS) WILL
EASILY EXCEED U.S. \$1 BILLION EQUIVALENT BEFORE MID-YEAR;
= GOVERNMENT DEBT WILL CONTINUE TO SOAR, DRIVEN BY
DEFICIT SPENDING AND VERY HIGH INTEREST COSTS;
= ANY TURNAROUND MUST ADDRESS THE CURRENT DEBT TRAP,
REQUIRE STRICT BUDGET ADHERENCE, ARREST THE RUNAWAY MONEY
SUPPLY GROWTH, ENSURE RATIONAL DEVALUATION, SEE THE
RESTORATION OF LAW AND ORDER, AND A PULLOUT FROM THE
CONGO. END SUMMARY

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DECLINING GDP

2. (U) IN HIS NOVEMBER 2000 BUDGET SPEECH, THE FINANCE
MINISTER REVEALED THAT HIS MINISTRY EXPECTED A 4.2 DROP
IN REAL GDP FOR 2000, A DECLINE MUCH WORSE THAN THE
GOVERNMENT'S MID-YEAR ESTIMATE OF 1.3 PERCENT. THE
MINISTRY HAS SINCE BUMPED ITS PROJECTION TO 4.8 PERCENT,
A FIGURE THAT SIGNIFIES A SERIOUS FALL. MANY LOCAL
ECONOMISTS CONSIDER THIS TOO LOW, AND ESTIMATE THAT
ZIMBABWE'S ECONOMY SHRUNK BY AT LEAST 7 TO 8 PERCENT
BASED ON DATA SHOWING THAT MANUFACTURING AND MINING
RESPECTIVELY DECLINED 10.5 AND 14 PERCENT, WITH
CONSTRUCTION AND TOURISM OFF BY AT LEAST 60 PERCENT. THE
FUEL SHORTAGES EXPERIENCED THROUGHOUT 2000 HAVE ALSO
SQUEEZED ECONOMIC ACTIVITY IN ALL SECTORS.

3. (C) OF POTENTIALLY GREATER CONCERN IS THAT THE CAUSES
BEHIND LAST YEAR'S POOR RESULTS HAVE NOT ABATED AND IN
AGRICULTURE, THE COUNTRY'S BIGGEST ECONOMIC SEGMENT, HAVE
ACTUALLY GOTTEN WORSE. THE GOVERNMENT'S ACTIONS DRIVEN

BY ITS POLITICAL AGENDA HAVE INCREASED ITS INTERNATIONAL ISOLATION; WITH ASSISTANCE BEING CUT OR SUSPENDED WHILE AT THE SAME TIME PORTFOLIO AND DIRECT FOREIGN INVESTMENT HAVE VIRTUALLY DRIED UP, AS MOST OVERSEAS COMMERCIAL BANKS HAVE SHUT DOWN OR WITHDRAWN LINES OF CREDIT.

14. (C) ANNUAL INFLATION, WHICH AVERAGED 58.5 PERCENT IN 1999, DECREASED TO 55.9 PERCENT IN 2000 ACCORDING TO
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GOVERNMENT STATISTICS. LOCAL BUSINESSES, BASED ON THEIR PAYMENT STREAMS, PEG LAST YEAR'S REAL, OVERALL INFLATION RATE AT 80 - 85 PERCENT, A FIGURE WE AGREE WITH. THE PRESSURES BEHIND THE PRICE INCREASES REMAIN HIGH, DRIVEN BY EXCESSIVE MONEY SUPPLY GROWTH (THE BROAD MONEY GROWTH RATE INCREASED FROM UNDER 30 PERCENT IN DECEMBER 1999 TO 61.2 PERCENT IN OCTOBER 2000), CONTINUED HIGH BORROWING NEEDS OF THE GOVERNMENT, AND THE INCREASING SPREAD BETWEEN THE OFFICIAL AND "PARALLEL" FOREIGN EXCHANGE RATES (55:1 V.S. 80-90:1).

TRADE FLOWS AND THE BALANCE OF PAYMENTS

15. (C) EXPORTS ARE ESTIMATED TO HAVE FALLEN BY 5.4 PERCENT IN 2000, LEADING TO A CURRENT ACCOUNT DEFICIT OF U.S. \$210 MILLION, DESPITE AN ESTIMATED 9.3 PERCENT DECLINE IN IMPORTS (THE LATTER CAUSED BY THE HARD CURRENCY SHORTAGE AND DECLINING GDP). THIS IS A SHARP DETERIORATION FROM THE 1999 CURRENT ACCOUNT SURPLUS OF U.S. \$29 MILLION. WITH NO INVESTMENT FLOW AND REDUCED DEVELOPMENT ASSISTANCE, THE OFFICIAL CAPITAL ACCOUNT IS ESTIMATED TO HAVE REGISTERED A DEFICIT OF U.S. \$401

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-----CE3065 061320Z /38

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SUBJECT: ZIMBABWE'S RECENT ECONOMIC RESULTS AND OUTLOOK

MILLION, RESULTING IN A NEGATIVE BALANCE OF PAYMENTS POSITION OF U.S. \$611 MILLION IN 2000.

16. (C) GIVEN THIS VERY POOR FUNDS-FLOW BACKDROP, IT SHOULD BE NO SURPRISE THAT ZIMBABWE IS FINDING IT INCREASINGLY DIFFICULT TO MEET ITS FOREIGN PAYMENT OBLIGATIONS, FOR BOTH CURRENT EXPENDITURES (SUCH AS FUEL) AND DEBT REPAYMENT. FOREIGN ARREARS, WHICH STOOD AT U.S. \$109 MILLION AT YEAR-END 1999, SOARED TO WELL OVER \$600 MILLION AT YEAR-END 2000. WE ESTIMATE A CURRENT ACCOUNT DEFICIT OF AT LEAST \$300 MILLION FOR THIS YEAR (THOUGH THIS COULD MORE THAN DOUBLE IF AGRICULTURAL RESULTS ARE POOR), WHICH WHEN ADDED TO INCREASING PAYMENT ARREARS MEANS A TOTAL FINANCING REQUIREMENT IN 2001 OF AT LEAST U.S. \$1.1 BILLION (IF ZIMBABWE IS NOT GOING TO BACKSLIDE FURTHER). THE PROSPECTS OF ADDRESSING THIS GAP ARE DAUNTING TO SAY THE LEAST, AND EVEN THE FULL RE-ENGAGEMENT AND WHOLEHEARTED PROGRAM SUPPORT OF ALL DONORS AND INTERNATIONAL LENDERS WOULD LIKELY BE INSUFFICIENT.

THE GOVERNMENT'S DOMESTIC DEBT

17. (C) A DEFICIT OF Z \$10.8 BILLION (4.8 PERCENT OF GDP) WAS PROJECTED IN THE 2000 GOZ BUDGET. HOWEVER, BY YEAR-END THIS HAD INCREASED TO Z \$ 55.2 BILLION (ABOUT 24 PERCENT OF GDP), WHICH AMOUNT WAS TOTALLY FINANCED BY DOMESTIC BORROWING. THE CURRENT PUBLIC SECTOR DEBT
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EXCEEDS Z \$160 BILLION, HAVING MORE THAN DOUBLED FROM \$80 BILLION AT THE BEGINNING OF THE YEAR. SHORT-TERM TREASURY BILLS MAKE UP THE VAST BULK OF THIS DEBT, AND WITH THE AVERAGE INTEREST RATE WELL EXCEEDING 55 PERCENT LAST YEAR, THE INTEREST BILL ALONE MAKES UP NEARLY HALF OF GOVERNMENT OUTLAYS. THE RUNAWAY GROWTH OF INTEREST COSTS, AS DEBT BALLOONS, CAUSED THE GOVERNMENT TO BORROW OVER 42 PERCENT OF ITS BUDGET IN 2000 FROM THE DOMESTIC SAVINGS POOL. IN SHORT IT BORROWED MONEY AT NEAR-USURIOUS INTEREST RATES TO PAY THE INTEREST ON MONEY IT HAD PREVIOUSLY BORROWED.

MOVES TO RESTRUCTURE THE DEBT

18. (C) TO CUSHION THE NEGATIVE EFFECTS OF THIS DEBT/BORROWING CYCLE, THE FINANCE MINISTER PROMISED IN THE 2001 BUDGET THAT HE WOULD RESTRUCTURE THE GOZ DOMESTIC DEBT; REDUCING THE SHORT TERM (I.E., T-BILL) PORTION FROM ABOUT 96 PERCENT DOWN TO 70 PERCENT IN AN ATTEMPT TO LOWER THE GOVERNMENT'S TOTAL INTEREST BILL. (THE GOZ'S LONG-TERM DEBT STOCK, Z\$8 BILLION OUT OF Z\$162 BILLION, WAS ISSUED IN THE LATE 1980'S AND EARLY 1990'S AT RATES BETWEEN 9 AND 24 PERCENT.) TO ACHIEVE THIS END, THE FINANCE MINISTRY AT THE END OF JANUARY EMBARKED ON AN EFFORT TO DRIVE DOWN MONEY MARKET RATES BY 1) NOT ROLLING OVER MATURING T-BILLS, AND 2) RELEASING THE CENTRAL BANK'S STATUTORY RESERVES ONTO THE MARKET VIA A 15 PERCENT FACILITY TARGETED AT EXPORTERS. THE RESULTANT FLOOD OF LIQUIDITY CAUSED A DRASTIC, AND ENGINEERED,
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RECENT DIP IN RATES TO THE MID-TEENS, A RATE FAR BELOW INFLATION.

19. (C) INTO THIS NEGATIVE INTEREST RATE ENVIRONMENT, THE MINISTRY ANNOUNCED IN MID-FEBRUARY THE FLOTATION OF A Z \$25 BILLION, FIVE-YEAR TREASURY BOND WITH A FIXED 25 PERCENT INTEREST COUPON. (ABOUT U.S. \$450 MILLION AT OFFICIAL RATES AND EQUIVALENT TO ABOUT 15 PERCENT OF CURRENT, TOTAL GOZ DEBT.) TO ENSURE ITS SALE, THE CENTRAL BANK SIMULTANEOUSLY ANNOUNCED THAT IT WAS TO BEGIN ENFORCING A PROSCRIBED ASSETS RULE, DICTATING THAT A MINIMUM PORTION OF THE HOLDINGS OF FINANCIAL INSTITUTIONS, PENSION FUNDS AND INSURERS MUST BE HELD IN VARIOUS MATURITIES OF GOVERNMENT PAPER. CAUGHT IN THIS SQUEEZE THE HOLDERS OF CASH HAVE HAD TO BELLY UP (IN ALL CASES AGAINST THEIR WISHES AND FIDUCIARY PRINCIPLES) AND THE ISSUE, WHICH CLOSED MARCH 5, IS EXPECTED TO SELLOUT. THE FINANCE MINISTRY'S MUSCLING IN ON THE FINANCIAL MARKETS EFFECTIVELY STEALS PRESENT SAVINGS THROUGH ITS SHARPLY NEGATIVE INTEREST RATES, UNLESS INFLATION FALLS DRASTICALLY IN THE NEAR TERM, A DEVELOPMENT NO ONE FORESEES OCCURRING. WIDOWS AND PENSIONERS ARE THE WORST AFFECTED. NEAT FINANCIAL ENGINEERING, BUT NOT SOUND, OR SUSTAINABLE, FINANCIAL POLICY.

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ECONOMIC OUTLOOK

110. (C) DESPITE THE INTEREST SAVINGS GAINED IN THE SMOKE
AND MIRRORS TRICK DESCRIBED ABOVE, ANY ECONOMIC RECOVERY
IN 2001 WILL DEPEND LARGELY ON THE FOLLOWING KEY FACTORS:

= RESOLUTION OF THE CURRENT PUBLIC SECTOR DOMESTIC DEBT
TRAP;

= GOVERNMENT'S ABILITY TO STAY WITHIN THE FRAMEWORK OF
THE ANNOUNCED BUDGET (THE 2001 BUDGET PROJECTS A GOZ
DEFICIT OF 14.6 PERCENT OF GDP);

= CONTAINMENT OF MONEY SUPPLY GROWTH RATES TO LEVELS
CONSISTENT WITH REAL ECONOMIC ACTIVITY;

= DEVALUATION CONSISTENT WITH DOMESTIC INFLATION RATES;

= RESTORATION OF ORDERLINESS, AND LAW AND ORDER, IN THE
LAND REDISTRIBUTION EXERCISE, AND;

= AN END TO THE MILITARY DEPLOYMENT IN THE CONGO.

111. (C) THE REALIZATION OF THESE KEY PARAMETERS WOULD
DAMPEN INFLATIONARY PRESSURES SIGNIFICANTLY AND PROPEL
THE ECONOMY FROM A POTENTIAL SLUMP IN REAL GDP OF OVER 10
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PERCENT IN 2001 TO MODEST RECOVERIES IN SOME SECTORS,
SUCH AS MANUFACTURING AND MINING. THE CURRENT POLITICAL
ENVIRONMENT AND ITS MOMENTUM AND DIRECTION, HOWEVER, DOES
NOT MAKE US SANGUINE THAT A RETURN TO SANE ECONOMIC
POLICIES AND DECISIONS IS IN THE OFFING. SADLY MORE OF
THE SAME APPEARS IN STORE, AT LEAST UNTIL THE
PRESIDENTIAL ELECTIONS ARE OVER, AND BY THEN THE DAMAGE
TO ZIMBABWE'S FUTURE MAY BE MUCH GREATER THAN THAT SEEN
TO DATE.

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